



-Week Ending 5/22/09-

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Thanks to MNB
for this selection of
articles.

Let's Get Small

Interesting piece in the *New York Times* about how a number of retailers – including Walmart, Best Buy, OfficeMax, Lowe's and RadioShack – are developing new formats, “opening scaled-down versions of their stores or inventing outlets entirely to test new concepts without a hefty investment.

“The stores are a relatively safe bet despite the recession because the space is cheaper and the stores require less inventory, fewer employees and smaller spaces ... Smaller formats also allow companies to enter new markets in urban or rural areas that they had bypassed during the boom ... They also can attract new customers who might be put off by larger stores or consumers who shop mostly online. Downsized or concept stores are more convenient and take less time to visit than a large store. Lines are typically shorter, and the shopping aisles can be easier to navigate.”

Health & Wellness Industry Grew Nine Percent In 2008

According to new figures from the Natural Marketing Institute (NMI), “retail sales within the U.S. consumer packaged goods health and wellness industry reached more than \$112 billion in 2008, representing growth of 9 percent over 2007 ... While functional foods and beverages continue to represent the largest category with 2008 sales of \$40.5 billion, the second largest category saw a slight shift in the past year, from vitamins/minerals/herbal supplements to organic foods and beverages. The category with the largest growth over the past year also shifted in 2008. Natural/organic general merchandise (including pet products, clothing and household cleaning products) saw growth of 32 percent over 2007. This is likely due to the mainstreaming of these products and greater availability in a number of shopping channels.”

NMI says that consumer penetration/usage trends break out this way:

- Functional/Fortified Foods & Beverages: \$40.5 billion (5 percent)
- Organic Foods/Beverages: \$23.6 billion (18 percent)
- Vitamins, Minerals, Herbal & Dietary Supplements: \$23.3 billion (7 percent)
- Natural Foods/Beverages: \$14.6 billion (4 percent)
- Natural/Organic Personal Care: \$8.4 billion (7 percent)
- Natural/Organic General Merchandise: \$2.0 billion (32 percent)

And, NMI projects that “that the health and wellness industry as a whole will remain relatively stable over the next five years at approximately 7 percent growth each year.”





Albertsons To Launch New Price Cutting Campaign In LA

The *Los Angeles Times* reports that Supervalu-owned Albertsons plans to announce a major price-cutting initiative today “aimed at regaining budget-minded customers lost to discounters such as Wal-Mart Stores Inc. and Target Corp.,” as well as to “smaller, aggressively priced stores such as Trader Joe’s, Fresh & Easy Neighborhood Market and Smart & Final.”

The *Times* reports that “Albertsons is calling its the new program ‘the Big Relief Price Cut’ and is pitching it as a way for Southern California shoppers to stretch their grocery budgets. The chain said prices will be reduced ‘on thousands of items in dozens of categories across the store . . . including basic stock-up items and staples from peanut butter and pasta to deodorant and detergent’.”

According to the *Times* story, Albertsons is not alone.

“After focusing on service and selection to attract shoppers, Vons owner Safeway Inc. has turned to more aggressive pricing in recent months. Ralphs Grocery Co. revamped its price structure and customer loyalty program last summer. A similar move in other regions helped Ralphs’ corporate parent Kroger Co. grab back market share from rivals, including the big warehouse chains. Stater Bros., the San Bernardino-based chain, has felt compelled to keep prices in check, even when food manufacturers are charging more, because it is worried about losing customers during the recession.”

Sansolo Speaks: The New New Normal...Again

by Michael Sansolo

Is the world changing yet again and if so, is it a bad thing?

In just the past week, signs of this change were everywhere.

- The *New York Times* ran a story (picked up in different fashion by media everywhere) about consumers returning to a frugal mindset, tracked through a substantial uptick in the national rate of savings.
- The *Washington Post* had a short article about *spaving*, a hip new word meant to describe when shoppers buy a lot of an item to stock up on a cheap price.
- Conservative columnist Michael Medved weighed in on the “silver lining” of the economic downturn in *USA Today*, citing the increased savings rate and a reduction in divorce and families moving.

The connection of these changed circumstances to the world of food retailing was summed up by a General Mills executive, who weighed in with an interview about the possibility that eating-at-home really is back to stay. Which begs the question of whether the economic downturn created a perfect storm of opportunity for the supermarket industry?

The answer is: it’s possible.

After all, consumers looking to save money have clearly returned some spending to the supermarket and in the process might have found that cooking can be much easier these days; that stores are more convenient to shop; and that buying less expensive store brands doesn’t necessarily mean poorer quality. What’s more, shoppers may have found that meal time around the kitchen table actually provides some unexpected benefits of family bonding.

Clearly, the economic events may have given supermarkets the marketing opportunity of a generation. The question is: now that the door is open, what will everyone do?

Shoppers, as we know, can be fickle. The advantage frugality has over frivolity today could switch in a second when the economy returns to more solid ground. The opportunity is there only if the industry keeps making the sale on all the facets of value.



Likewise, shopper concerns are likely to move in many new directions, some very challenging. The *Times* also wrote recently about "The Story of Stuff," a viral video that boasts millions of views. It's a 20-minute critique of America's consumption habits and challenges shoppers to rethink exactly how and why they buy so much. Whether you agree with the argument is irrelevant if consumers' feelings on frugality and values extend in new directions.

And then consider McDonald's. In the past few years, the fast food giant resurrected its image, sales and profitability with a host of unorthodox moves. Blending low price and perceived quality with offers as divergent as the dollar menu and the McCafé drinks and angus burgers, McDonald's is building powerful new links to its shoppers by changing the nature of value in its stores.

The challenge for supermarkets is how do to the same: how to blend the relatively inexpensive prices of food products with the benefits of healthier eating, convenient meal preparation and more. What's more, can we seize this opportunity with élan, educating shoppers on how to improve their cooking, using new recipes, new flavors and new products to make family meals more exciting than ever? And there is so much more.

At least until new normal shifts again. *Michael Sansolo can be reached via email at msansolo@morningnewsbeat.com.*

The How & Why Of Kroger Private Brand Development

The *Cincinnati Enquirer* has a long story about how and why Kroger develops private brand products.

"For Kroger, the epicenter of the company's private-brand initiative is in downtown Cincinnati in a laboratory and test center tucked away in the first floor of the corporate headquarters," the *Enquirer* writes. "Few of those thousands of products make it to store shelves without first passing muster with consumers who come to the laboratory to sample items each week.

"Three afternoons a week, anybody who works in the building - many if not most are Kroger employees - line up to rate a variety of foods on a bank of computers. On one recent afternoon, the offering was a cranberry, mango, vegetable and fruit medley in honey-lime seasoning. All of the potential brands are judged with a rigorous survey. Testers cannot talk. They must rank foods across a number of detailed categories, such as overall liking, flavor, appearance and texture ... Testers are paid with chocolate candy, cookies and free coupons for their trouble - as well as the free plate of food being tested."

The *Enquirer* notes that "Kroger has invested heavily in its roster of private brands; the company has 41 food manufacturing plants spread out across the nation. Kroger has so much confidence in its products that the company makes a bold offer to consumers: *Try it, like it or get the national brand free.*"

The investment is paying off. The paper also reports that "a typical Kroger store stocks about 14,400 private-label items - nearly double the 7,800 items stocked in 2003 ... During 2008, 26 percent of Kroger's grocery sales came from private brands, and Kroger brands reached a record-high 34 percent of grocery unit sales. Also, Private Selection, the company's premium tier of store brands, exceeded \$1 billion in sales in 2008."

C-Store Chain Charts Aggressive Growth Plan

7-Eleven Inc. reportedly plans to open 200 new stores this year, 30 more than the 170 opened during 2008, a number that will be reached through ground-up units and conversions from other banners, locations in urban and suburban locales, and both freestanding and shopping center locations.

The goal is to grow the company aggressively at a time when many retailers are cutting back.

"7-Eleven is expanding amid the gloom of retail retrenching," says Dan Porter, 7-Eleven's vice president of real estate. "There is opportunity for our company to fill the void at once vibrant locations that are going vacant. We are flexible in that we will buy a site and remodel, sign 10-year shopping center, building or ground leases with options to renew or purchase a site at the right location and build a ground-up store."





FastNewsBeat

- Delhaize Group reportedly has offered to acquire for the equivalent of about \$182 million (US) the 34.73 percent of Greek supermarket chain Alfa-Beta Vassilopoulos that it does not already own.

Delhaize became Alfa-Beta's principal shareholder in 1992.

- The *Daily Press* reports that between now and June 4, Harris Teeter is awarding a coupon for one free grocery shopping trip to every 400th shopper at each of its stores.

"Each participating store has its own customer count. Every 400th customer at each participating store will be a winner. For instance, if 1,600 customers shopped at our Newport News stores today, four customers from that store would have won," Catherine Reuhl, communications specialist for the grocery chain, tells the paper.

The only caveat: winners have to be enrolled in Harris Teeter's VIC loyalty marketing program.

- North Carolina-based L&M Cos. has recalled a single shipment of cantaloupes after one tested positive for salmonella.

The lot of cantaloupes came from one small farm, according to the company, and were all shipped to Walmart Supercenters in Virginia, North Carolina and South Carolina.

There have been no reports of illness.

The MNB Wal-Mart Watch

- An accusation by a coalition of labor groups that Walmart broke election laws by pressuring employees to vote against Democrats in the 2008 elections has been dismissed by the Federal Election Commission (FEC), which said that there was no evidence to support the charges.
- The *Triangle Business Journal* reports that "the North Carolina Court of Appeals has denied Walmart's attempt to win \$30 million in tax refunds from the state." The company had argued that the state had miscalculated its tax exposure by incorrectly combining three of its separate business entities, but the court unanimously ruled against the company.
- Walmart announced that its Sam's Club division "is making it easier for small businesses to lower their costs by simplifying the requirements for its Business Membership by eliminating more than a dozen required documents including permits and licenses formerly needed to join. Under the new guidelines, small business owners can obtain a Sam's Club business membership simply by providing a current business card, letterhead or other documents they may use to promote or manage their business."

The Balance Sheet

- BJ's Wholesale Club reports that its first quarter net profit rose to \$24.3 million, from \$17.2 million during the same period a year earlier. Q1 sales rose 0.2 percent to \$2.26 billion, and same-store sales were off 1.5 percent.
- Target Corp. said that its first quarter sales were up to \$14.4 billion from \$14.3 billion during the same period a year ago, with same-store sales off 3.7 percent. Profit fell to \$522 million, from \$602 million a year earlier.